

Legislative Fiscal Bureau

Fiscal Note

SF 2306 - School Bonds Tax Exempt (LSB 7054 SV)

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Fiscal Note Version - New

Description

Senate File 2306 exempts interest earned on bonds and notes issued for school district infrastructure purposes from Iowa individual and corporate income tax.

Assumptions

1. In calendar year 2002, \$215.0 million in bonds and notes will be issued by Iowa school districts for infrastructure purposes and the amount will increase by 3.0% per year.
2. The bonds will have an average maturity of 15 years.
3. The annual interest rate for the bonds will be 5.20% (exempt from State and federal taxes).
4. The average effective State tax rate will be 5.42%.
5. The change will first impact FY 2003 tax receipts.
6. This fiscal estimate assumes the tax status of interest on bonds issued prior to the effective date of the Bill will not change. If an additional effect of the Bill is to make interest from previously issued bonds tax exempt, the fiscal impact would be significantly higher.

Fiscal Impact

The tax exemption provisions of SF 2306 will reduce Iowa tax revenues by \$7.0 million per year by FY 2017. The impact for each of the next five fiscal years is projected to be:

- FY 2003 - \$0.6 million
- FY 2004 - \$1.2 million
- FY 2005 - \$1.8 million
- FY 2006 - \$2.3 million
- FY 2007 - \$2.8 million

Exempting school district bond issues from State taxes will reduce the interest rate required by investors to make the bonds marketable. The reduced interest rate (approximately one-tenth of one percent) will reduce the interest expenses paid by Iowa school districts. Depending on market conditions, the reduced interest costs should equal or nearly equal the cost to the State in lost income tax revenue.

Sources

Iowa Association of School Boards (Bond Counsel)
Legislative Fiscal Bureau Analysis

/s/ Dennis C Prouty

March 18, 2002

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Legislative Fiscal Bureau to members of the Legislature upon request.
